

Message Text

UNCLASSIFIED

PAGE 01 CANBER 06243 080212Z

ACTION EA-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 /092 W

-----006297 080247Z /65

R 070542Z SEP 77

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 1262

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

UNCLAS CANBERRA 6243

E.O. 11652: N/A

TAGS: EFIN, ECON, AS

SUBJ: STATUTORY RESERVE DEPOSIT (SRD) RATIO CUT AGAIN

1. GOVERNOR OF RESERVE BANK, KNIGHT, ANNOUNCED ON SEPTEMBER 6 THAT EFFECTIVE SEPTEMBER 9, SRD RATIO CUT BY 1.5 PERCENT TO 6.5 PERCENT. NEW CUT TAKES SRD RATIO TO LOWEST POINT SINCE DECEMBER 1976. LAST SRD CUT MADE JULY 1.

2. OF FUNDS THUS RELEASED 1 PERCENT, OR DOLS A 168 MILLION, WILL GO INTO BANKS FREE LIQUID ASSETS. REMAINING 0.5 PERCENT, OR DOLS A 84 MILLION WILL REPLENISH TRADING BANKS' TERM AND FARM DEVELOPMENT LOAN FUNDS.

3. IN MAKING ANNOUNCEMENT KNIGHT ACKNOWLEDGED THAT BANK LIQUIDITY HAD REMAINED LIGHT OVER RECENT WEEKS AND THAT LATEST RELEASE WOULD HELP SUSTAIN BANKS' ABILITY CONTINUE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 CANBER 06243 080212Z

RECENT PACE OF LENDING TO PRIVATE SECTOR. HE EMPHASIZED, HOWEVER, THAT ACTION DID NOT INVOLVE ANY CHANGE IN MONETARY AND BANKING POLICY. POLICY AIMED AT LIMITING NEW BANK LENDING TO AROUND DOLS A 100 MILLION A WEEK. THIS HAS BEEN SLIGHTLY EXCEEDED DURING PAST FOUR MONTHS WITH WEEKLY RATE OF LENDING RANGING BETWEEN DOLS A 103 MILLION IN AUGUST AND DOLS A 110 MILLION IN JULY.

4. MOVE TO FREE BANKS' LIQUIDITY COMES SIMULTANEOUSLY WITH RESERVE BANK OPEN MARKET OPERATIONS DESIGNED TO EDGE DOWN YIELDS ON GOVERNMENT BONDS. BANKS REPORTEDLY HAVE JOINED WITH COMPANIES AND MONEY MARKET DEALERS IN HEAVY SPECULATION ON GOVERNMENT BONDS IN ANTICIPATION OF SLIGHT CUT IN INTEREST RATE ON MEDIUM AND LONG-TERM BONDS. IT ESTIMATED THAT THIS SPECULATION IS MAJOR REASON FOR PRESENT TIGHT LIQUIDITY POSITIONS. BANKS' LGS RATIO (LIQUID FUNDS AND GOVERNMENT SECURITIES TO DEPOSITS) DROPPED FROM AVERAGE OF 30.3 PERCENT IN MARCH TO 21.7 PERCENT IN JULY AND IS NOW CLOSE TO 21 PERCENT, JUST 3 PERCENT ABOVE MINIMUM 18 PERCENT. BUT THIS IS AVERAGE, WITH SOME BANKS REPORTEDLY RIGHT ON MINIMUM LIQUIDITY LEVEL. ANOTHER CONTRIBUTOR TO BANKS' TIGHT LIQUIDITY POSITION HAS BEEN BIG SUBSCRIPTION TO JULY COMMONWEALTH LOAN.

5. INITIAL RESERVE BANK ACTIONS ON INTEREST RATES WERE VERY MARGINAL, BUT BY SEPTEMBER 6 YIELDS ON 1994 AND 1996 MATURITIES WERE DOWN TO 10.39 PERCENT, A REDUCTION OF 0.1 PERCENT SINCE FRIDAY, SEPTEMBER 2. WHILE SOME OBSERVERS HAD INITIALLY BELIEVED MOVEMENT WOULD BE RESTRICTED TO EXTRA-LONG END, ON SEPTEMBER 6 YIELD ON 1987 MATURITIES CUT BY 0.05 PERCENT TO 10.34 PERCENT. QUESTION NOW IS WHERE ACTION WILL STOP. SOME OBSERVERS BELIEVE RESERVE BANK WILL SHAVE RATES DOWN THE LINE INTO SHORTER-DATED ISSUES, STOPPING AT 18 MONTHS

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 CANBER 06243 080212Z

TO TWO YEARS AND THAT EXTRA-LONG MATURITY BONDS WOULD BE SHAVED BY A TOTAL OF NO MORE THAN 0.25 PERCENT, WHICH MEANS THERE COULD STILL BE SOME MOVEMENT TO COME.

6. COMMENT: FEDERAL GOVERNMENT HAS BEEN UNDER CONSIDERABLE PRESSURE RECENTLY FROM STATE PREMIERS, SITTING ON LOANS COUNCIL, TO MOVE INTEREST RATES DOWNWARD IN AN ATTEMPT TO GET ECONOMY MOVING. ON OTHER HAND, TREASURY OFFICIALS ARE UNDERSTOOD TO BE RESISTING TOO SHARP REDUCTIONS ON GROUNDS THAT DROP WOULD BRING LARGE PAPER PROFITS ON BONDS TO MONEY MARKET DEALERS. ONLY WAY LARGE STOCKS COULD BE MOVED IN HURRY WOULD BE FOR RESERVE BANK TO BUY HEAVILY TO SUPPORT NEW STRUCTURE OR FOR SALES TO BE MADE TO OVERSEAS INVESTORS. EITHER WAY WOULD HAVE MEANT SIGNIFICANT EXPANSION OF MONEY SUPPLY, SOMETHING GOVERNMENT HAS STRONGLY RESISTED.

ALSTON

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL DESIGNATIONS, BANK RESERVES
Control Number: n/a
Copy: SINGLE
Sent Date: 07-Sep-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977CANBER06243
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770324-0933
Format: TEL
From: CANBERRA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770992/aaaaczol.tel
Line Count: 110
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6a42034d-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 15-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1369601
Secure: OPEN
Status: NATIVE
Subject: STATUTORY RESERVE DEPOSIT (SRD) RATIO CUT AGAIN
TAGS: EFIN, ECON, AS
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/6a42034d-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009